

Message Text

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ACTION PM-04

INFO OCT-01 EA-07 ISO-00 AID-05 IGA-02 DHA-02 CIAE-00
DODE-00 H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01
PRS-01 SP-02 SS-15 USIA-06 MC-02 ACDA-07 OMB-01
EB-07 COME-00 TRSE-00 /079 W
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FM AMEMBASSY TAIPEI
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C O N F I D E N T I A L TAIPEI 3969

NOFORN

AIDAC FOR COORDINATOR OF SECURITY ASSISTANCE

E.O. 11652: GDS
TAGS: EAID, MASS, TW
SUBJECT: AID IMPLEMENTATION OF PRESIDENT'S ARMS TRANSFER POLICY

REF: (A) STATE 133136, (B) STATE 122750, (C) TAIPEI 3344

1. ALTHOUGH TAIPEI NO LONGER HAS AID MISSION, POST BELIEVES
DATA GIVEN BELOW MAY BE OF USE TO AID/PPC.

2. SUMMARY: ECONOMIC AND FINANCIAL CONDITION OF ROC
BELEIVED SUFFICIENTLY SOUND TO ABSORB WITHOUT SIGNIFICANT
ADVERSE AFFECT BOTH PROBABLY OVERALL GROC MILITARY EXPENDI-
TURES AND PROBABLY MILITARY PURCHASES FROM ABROAD IN FY 1979.

3. DISCUSSION: AFTER TWO YEARS OF LOW GROWTH IN 1974 AND
1975, ECONOMY OF ROC RECOVERED STRONGLY IN 1976, ACHIEVING
GNP OF US\$17.1 BILLION (IN 1976 DOLLARS, EQUIVALENT TO
US\$10 BILLION IN 1971 DOLLARS), AND REAL GNP GROWTH RATE
OF 11.7 PERCENT (USING 1971 AS A BASE). GROC HAS INCREASED
CONSOLIDATED BUDGET AT SOMEWHAT, BUT NOT DANGEROUSLY,
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HIGHER RATE. FY 1977 BUDGET (JULY 1976 - JUNE 1977),
AT US\$4,439 MILLION, WHEN ADJUSTED FOR INFLATION WAS
16 PERCENT HIGHER THAN FY 1976. AS PERCENTAGE OF BUDGET,
DEFENSE EXPENDITURES ACCOUNTED FOR ABOUT 36 PERCENT IN
FY 1977, COMPARED WITH APPROXIMATELY 34 PERCENT IN FY 1976, NOT
A SIGNIFICANT CHANGE. AS PERCENTAGE OF TOTAL GNP, THESE
EXPENDITUES ALSO INCREASED SLIGHTLY, FROM 8.65 PERCENT

IN FY 1976 TO ABOUT 9 PERCENT IN FY 1977, OR FROM US\$1,253 MILLION TO AN ESTIMATED US\$1,517 MILLION (BOTH FIGURES IN CONSTANT FY 1976 DOLLARS). TOTAL VALUE OF IMPORTS OF GOODS AND SERVICES IN FY 1977 (AT CONSTANT FY 1976 DOLLAR VALUE AND COMPUTED ON CUSTOMS C.I.F. BASIS) IS PROJECTED TO BE ABOUT US\$7,992 MILLION, AS COMPARED WITH US\$6,695 MILLION IN 1976. MILITARY PURCHASES FROM ABROAD, AT US\$260.2 MILLION IN FY 1977 AND US\$178.7 MILLION IN FY 1976, REPRESENTED 3.3 PERCENT AND 2.7 PERCENT RESPECTIVELY OF VALUE OF TOTAL IMPORTS FOR THOSE YEARS. FOR FY 1978 AND 1979, PROJECTED GNPS (IN FY 1976 CONSTANT DOLLARS) ARE US\$18.2 BILLION AND US\$19.5 BILLION, RESPECTIVELY; PERCENTAGE RATES OF GNP GROWTH 7.5 PERCENT AND 7.5 PERCENT; CONSOLIDATED BUDGET US\$4,976 MILLION AND US\$5,361 MILLION; DEFENSE EXPENDITURES US\$1,569.5 MILLION AND US\$1,633.5 MILLION; DEFENSE EXPENDITURES AS PERCENTAGE OF CONSOLIDATED BUDGET 31.5 PERCENT AND 30.5 PERCENT; DEFENSE EXPENDITURES AS PERCENTAGE OF GNP 8.6 PERCENT AND 8.4 PERCENT; TOTAL IMPORTS OF GOODS AND SERVICES US\$8,543 MILLION AND US\$9,939 MILLION; MILITARY IMPORTS US\$322.6 MILLION AND US\$340.3 MILLION; AND MILITARY IMPORTS AS PERCENTAGE OF TOTAL IMPORTS 3.8 PERCENT AND 3.4 PERCENT. LUE OF ANTICIPATED PURCHASES OF SOPHISTICATED WEAPONS SYSTEMS FROM U.S. IN FY 1979 IS US\$159.3 MILLION.

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4. GROWTH OF ECONOMY THIS YEAR IS NOT EXPECTED TO MATCH THAT ACHIEVED DURING 1976 OR TO REACH GROC TARGET OF 8.5 PERCENT. HOWEVER, FOREIGN EXCHANGE RESERVES, CURRENTLY US\$3.4 BILLION NET AND GROWING, ARE CONSIDERED ADEQUATE TO HANDLE BOTH THE OVERALL MILITARY BUDGET DEMANDS PROJECTED FOR FY 1978 AND CONTEMPLATED PURCHASES OF MILITARY EQUIPMENT FROM OVERSEAS SOURCES, WITHOUT JEOPARDIZING PRESENTLY STRONG INTERNATIONAL CREDIT RATING AND DEBT SERVICING CAPABILITIES, FORCING MAJOR DOWNWARD REVISIONS IN ONGOING CIVILIAN ECONOMIC DEVELOPMENT EFFORTS, OR CREATING OTHER DESTABILIZING EFFECTS ON ECONOMY. UNLESS THERE IS SEVERE ECONOMIC DOWNTURN, ABOVE STATEMENT SHOULD BE VALID FOR FY 1979 AS WELL. DEBT SERVICE RATIO IN RECENT YEARS HAS BEEN IN 6 TO 7 PERCENT RANGE, VERY GOOD BY REGIONAL STANDARDS. PSYCHOLOGICAL EFFECTS OF VISIBLE FAILURE TO CONTINUE UPGRADING OF DEFENSE CAPABILITIES WOULD CREATE MUCH GREATER DANGER TO ECONOMY THROUGH DISCOURAGEMENT OF INVESTMENT AND ENCOURAGEMENT OF CAPITAL FLIGHT THAN IS LIKELY TO BE POSED BY STRAIN OF MILITARY EXPENDITURES AT CONTEMPLATED LEVEL.

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